



Department of Audit

Milwaukee County

Jerome J. Heer

• Director of Audits

Douglas C. Jenkins

• Deputy Director of Audits

April 6, 2005

To the Honorable Chairman
of the Board of Supervisors
of the County of Milwaukee

We have completed an audit of Department of Child Support. The audit, conducted at the request of the department head, makes recommendations to improve fiscal procedures to strengthen internal controls over financial transactions in the office.

A response from the Department of Child Support is attached. We appreciate the cooperation extended by the Department of Child Support staff during the audit.

Please refer this report to the Committee on Finance and Audit.

Jerome J. Heer
Director of Audits

JJH/cah

Attachment

cc: Milwaukee County Board of Supervisors
Scott Walker, Milwaukee County Executive
John Hayes, Director, Department of Child Support
Linda Seemeyer, Director, Department of Administrative Services
Stephen Agostini, Fiscal and Budget Administrator, Department of Administrative Services
Scott Manske, Controller, Department of Administrative Services
Terrence Cooley, Chief of Staff, County Board Staff
Steve Cady, Fiscal and Budget Analyst, County Board Staff
Lauri J. Henning, Chief Committee Clerk, County Board Staff

COUNTY OF MILWAUKEE
Inter-Office Communication

Date: April 6, 2005

To: John Hayes, Director, Department of Child Support

From: Jerome J. Heer, Director of Audits

Subject: Internal Control Review

We have conducted a review of your fiscal management operations, including a review of that unit's management structure and the internal controls over financial transactions and reporting. This review was conducted at your request and was prompted when your department did not timely report to the Treasurer's Office the amount of unclaimed funds that were being held by the department.

Background

Prior to 1999, the County was responsible for the function of collecting and disbursing court-ordered payments relating to alimony, paternity and child support. This was done essentially through two checking accounts maintained by the Department of Child Support (DCS), commonly referred to as Alimony and Paternity. A third account was initiated in 1996 when the State implemented the Kids Information Data System (KIDS), which allowed for the on-line processing of court-ordered collections and disbursements. With the implementation of KIDS and the checking account related to it, activity in the other two accounts was limited to re-issuing checks that had been previously written but subsequently lost or otherwise rendered non-negotiable. At this point, DCS was still responsible for collecting and disbursing court-ordered payments, but from 1996 – 1998 it was done primarily through the KIDS account.

Beginning in 1999, the State assumed responsibility for this function. DCS continued to maintain the three accounts, again primarily to pay on checks previously written. One of the accounts (Paternity) was also used to make deposits and transfer the amounts to the State for court-ordered collections that DCS continued to receive at its courthouse location.

The following table shows the amount of outstanding checks that have been in these accounts at year-end since 1999:

Table 1
Year End Balances of Outstanding Checks
1999 – 2004

<u>Year</u>	<u>Alimony</u>	<u>Paternity</u>	<u>KIDS</u>	<u>Total</u>
1999	\$288,602	\$290,236	\$663,270	\$1,242,108
2000	288,446	290,151	652,909	1,231,506
2001	212,583	290,111	648,563	1,151,257
2002	204,371	289,955	647,621	1,141,947
2003	204,371	289,955	647,175	1,141,501
2004	3,803	128,703	-0-	132,506

Note: Three checks totaling \$1,008,332 were written in 2004 to the Treasurer representing unclaimed funds.

Source: Bank reconciliation records maintained by the Department of Audit.

Investment of Excess Funds

Good cash management practices suggest that excess cash above what is needed to pay ongoing obligations should be invested in order to earn interest. Though DCS took over responsibility for about \$1.2 million from the Clerk of Courts in January 1999, no investment activity took place until October 2000. The first investment instrument was a nine-month certificate of deposit purchased at a local bank for \$500,000 that matured in July 2001. Interest of \$24,937 was returned to DCS in the form of a check that DCS accounting staff properly credited as interest income. The \$500,000 principal was reinvested a few days later in another certificate of deposit that was liquidated in December 2003 (held for about 29 months). Interest of \$44,737 was earned over that period.

In January 2001, another \$770,000 in outstanding checks was invested in a different investment instrument, this time opening up a money market account that was later closed in December 2003. During the period in which this account was active, \$225,000 of the principal was returned to DCS via wire transfer to cover obligations. The remaining \$545,000 plus interest totaling \$45,341 was returned to DCS accounts in December 2003. In both cases the interest was deposited into DCS's Alimony account.

However, interest totaling \$90,078 from the second CD and the money market account still has not been properly accounted for in the County's books, though it has been held by DCS for over a year. It is important that these funds receive the proper accounting immediately, as any delay invites the potential for misappropriation without detection. It is unclear why there was a delay in posting the interest to the accounts. We recommend that DCS:

1. *Close the Alimony account immediately, with all remaining funds properly accounted for in accordance with generally accepted accounting principles, including the \$90,078 in interest revenue.*

Procedures for Allowing Unclaimed Funds to be Realized as Revenue

In 2003, DCS budgeted revenues of about \$1 million in unclaimed funds that were expected through the write-off of DCS's outstanding checks. State statutes governing unclaimed funds require that they be provided to the County Treasurer by January 10th of every odd-numbered year, then be properly advertised so that rightful owners have a chance to claim them before becoming County property. The

problems with DCS's unclaimed funds surfaced when the budgeted revenues could not be recognized in 2003 because DCS did not make the required reporting to the Treasurer in the statutory timeframe. DCS had already filed a claim with the State, offsetting operating expenses with the expected revenue.

This problem has been addressed so that unclaimed funds can be recognized for 2005. Unclaimed funds are likely to resurface with DCS at least once more in the future, since \$132,000 in outstanding checks remain, primarily in the Paternity account. We recommend that DCS management:

2. *Take action to provide assurance that required procedures and timeframes are followed concerning future write-offs of outstanding checks to unclaimed funds.*

Other Internal Control Issues

Our review of the internal controls over the funds maintained by DCS identified the following issues:

- Overages and shortages resulting from daily cash receipts are not reported in accounts specifically established in the County's financial statements. Instead, past overages have been removed from daily deposits and allowed to accumulate into a 'slush fund' that is used to offset daily shortages noted at the close of daily business. According to DCS staff, such occurrences are relatively rare. The balance of the fund as of November 4, 2004 was \$25.
- The Department of Audit reconciles DCS checking accounts monthly. Errors are sometimes noted that require adjustments on the part of DCS staff to balance the accounts. Instances were noted in which adjustments suggested by the Department of Audit were either made by DCS several months later or not at all, undermining the control that independent reconciliations can provide.
- The County's financial reporting system, Advantage, generates monthly trust fund reports showing all activity for each individual fund, including these DCS accounts. These reports should be examined by departments to ensure that the information concerning trust funds under its control is accurate, including a review for unauthorized activity. However, DCS does not receive these reports for its accounts. Instead, its reports are mistakenly being sent to the Clerk of Courts, without being forwarded to DCS for review.
- Milwaukee County Ordinance 56.31 requires departmental officers who deposit monies with any depository other than the County Treasurer, to report on an annual basis to the County Treasurer, the separate source and amount of funds under their control, for its report to the County Board. The \$500,000 investment in a certificate of deposit from July 2001 to December 2003 was not disclosed to the Treasurer for inclusion in its 2001 and 2002 reports. This demonstrates a control weakness that extends to all County departments, not just DCS.
- DCS did not maintain complete records for its bank certificate of deposit investment. We made contact with the bank to obtain statements encompassing the final two years of the 3.25 year period in which funds were invested. It would appear that DCS did not reconcile statement activity with its books to ensure all funds were properly accounted for.
- When the trust accounts were transferred to DCS from the Clerk of Courts, DCS was not aware of the fact that the Clerk of Courts still held \$340,000 of trust fund monies in investments that had not yet matured. These funds were subsequently given to DCS in February 1999. Further, these funds were not recorded in DCS accounts until September 2000, 19 month later.

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John Hayes, Director, Department of Child Support

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- An issue that will probably not recur was the lack of expertise by DCS staff in deciding which investment instrument to use for the excess trust account funds. For instance, DCS staff noted that they had no investment experience when the accounts were transferred to DCS from the Clerk of Courts, so they contacted someone from another County department for advice. This person had some experience in this type of investing, but it was not a routine part of his job, as opposed to someone from the Treasurer's Office having day-to-day experience in such activities.

County guidelines exist that require departments to report on any outside investments and limiting them to funds having a minimum investment rating. However, they do not provide a control to prevent a department from investing in an improper instrument, such as one with high risk that could jeopardize the principal. Though such an investment would likely be brought to light when reporting the investment details to the Treasurer, it would be predicated on following reporting requirements. If it was not reported (such as the case with the \$500,000 certificate of deposit investment), such a risky investment might not ever be disclosed.

- DCS has used wire transfers at times in the past to move large amounts of funds to and from the trust accounts. Though other controls are involved before wire transfers can be initiated, such as call-backs to authorized DCS management by the bank, account identification numbers and personal identification numbers (PIN) are also needed to access the accounts. We noted that the PIN for the Alimony account was written on a piece of paper in DCS's bank reconciliation folder.
- More care needs to be given to properly void checks written but not intended to be used. We found several instances of voided checks that could easily have been negotiated with little effort.
- There is no comprehensive policies and procedures manual for clearly delineating duties and responsibilities, and how they should be performed. With recent retirements and the potential for future retirements, an up-to-date policies and procedures manual is a good tool for maintaining consistent performance by staff.
- DCS had a check for \$800 written by the State naming the operations manager as the payee. This was in response to a situation in which a cash payment of the same amount was posted to the wrong account, and steps were taken internally to correct the situation. However, the check should have been made payable to DCS rather than singularly naming the operations manager to avoid both the appearance and potential for abuse.

To address these internal control issues we recommend that DCS management:

3. *Follow established County policies and procedures regarding the proper accounting for cash overages and shortages. Additionally, close out the fund used to accumulate cash overages and shortages and properly account for all cash currently remaining in it.*
4. *Promptly make recommended adjusting entries in open bank accounts that are noted during the bank reconciliation process.*
5. *Obtain and promptly review Advantage reports on trust fund activity to help ensure all transactions posted are accurate and authorized.*
6. *Transfer responsibility for any future investment activity of excess funds in DCS trust accounts to the Treasurer's Office to avoid problems noted in this report. This may be a moot point as the remaining funds subject to investment are relatively small.*

7. *Take appropriate steps to safeguard passwords and personal identification numbers relating to the trust funds to avoid unauthorized activity.*
8. *Properly void all checks that are not intended to be negotiated.*
9. *Compile and maintain an up-to-date, comprehensive policies and procedures manual for use by management and staff in performing all assigned tasks.*

Cash Controls Over Daily Collections

In general, other than the handling of overages and shortages, good cash handling controls exist over the handling of cash receipts taken in by DCS at the Courthouse location. However, it appears that an inordinate amount of time is spent by staff accounting for these collections, given the relatively low number of transactions (about 5 per hour). In addition to reconciling receipts at the end of the day, mid-day cash counts are also performed to ensure funds are all accounted for. While occasional surprise cash counts are a good control, daily scheduled cash counts provide little control over improper point-of-sale activity.

Two staff persons estimated that 40% and 25% of their times, respectively, was spent on cash counts and subsequent accounting for cash collections. The operations manager, who also is involved with this task as well as several others, estimated that handling and accounting for cash receipts took more of her time than any other task she performed. This is time that could be better spent on other work, perhaps tasks that could be delegated by the operations manager to relieve her of some of her many responsibilities.

We reviewed cash register transaction tapes over two months to determine if unusual activity had taken place. Of concern were the relatively high number of "No Sale" transactions (273 over two months), which represent opening and closing the cash drawer without a cash collection transaction taking place. In some environments this could lead to abuse, so steps should be taken to limit the frequency of this type of transaction.

Other Issues

In closing, we offer the following observations and conclusions based on our limited review of the internal controls over financial transactions and reporting in the Department of Child Support Enforcement.

- Among key staff members, there is a general lack of familiarity with fundamental County fiscal procedures.
- There is a concentration of fiscal duties with one senior staff member. According to discussions with the staff member and departmental management, this individual has difficulty delegating tasks and routinely works long hours to complete her duties.
- The void created by the department's lack of familiarity with County fiscal procedures has been filled with practices that, while reflecting a diligence on the part of departmental staff, do not provide proper safeguards over public funds.

As a consequence of these conditions, the Department of Child Support Enforcement was responsible for missing a statutory deadline that delayed the recognition of approximately \$1 million in revenue to the County from fiscal year 2004 to 2005, and exposed the County to unnecessary risk of undetected errors or theft in connection with significant funds under its control. We recommend that DCS management:

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10. *Seek customized training from the Department of Administrative Services regarding fundamental County fiscal procedures.*
11. *Have senior financial staff delegate routine tasks of a relatively low importance level to others to reduce the long hours and distractions that such tasks can create, allowing senior staff to focus on the more critical tasks.*

A response from the Director, Department of Child Support, is attached. We would like to thank DCS staff for their cooperation during this review.

Jerome J. Heer
Director of Audits

JJH/cah

cc: Milwaukee County Board of Supervisors
Scott Walker, County Executive
Linda Seemeyer, Director, Department of Administrative Services
Stephen Agostini, Fiscal & Budget Administrator, Department of Administrative Services
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Steve Cady, Fiscal & Budget Analyst, County Board Staff
Lauri J. Henning, Chief Committee Clerk, County Board Staff

MILWAUKEE COUNTY
Department of Child Support Enforcement
Interoffice Memorandum

DATE: March 30, 2005

TO: Jerome J. Heer, Director of Audits

FROM: John P. Hayes, Director, Department of Child Support Enforcement (CSE)

SUBJECT: Audit of CSE

We have reviewed the report of the fiscal management operations of CSE dated February 28, 2005. The following is the response to your recommendations and the plan of implementation:

Investment of Excess Funds:

- Response to recommendation:
The Alimony account will be closed immediately. Fiscal management has included the \$90,078.00 interest in CSE's final report for 2004.

Procedures for Allowing Unclaimed Funds to be Realized as Revenue:

- Response to recommendation:

Paternity account will be closed immediately and all funds from this and Alimony account will be transferred to the County Treasurer to ensure that revenues will be accounted for by CSE and the County in the year 2005 as provided by Statute.

Other Internal Control Issues:

- Response to recommendations:
 1. Account for overages and shortages will be established. County policies for overages and shortages will be followed.
 2. Procedures for bank reconciliation process will be followed as required.
 3. Department of Administrative Services (DAS) will be requested to forward reports relating to this Department rather than to the Clerk of Courts.
 4. CSE invested funds upon advice of senior management in County Treasurer's office. Further investments strategies will not be needed, as only nominal funds are now retained by CSE.
 5. Procedures will be established to ensure the safeguarding for all passwords and personal identification numbers relating to fiscal accounts.
 6. All non-negotiated checks will be voided promptly.
 7. CSE will request assistance of DAS to compile comprehensive fiscal policy manual.

Other Concerns:

- Response to recommendations:
 8. DAS will be requested to perform customized training for this department.
 9. CSE management will work with fiscal staff to ensure proper delegation of routine duties. Plan will be submitted within 30 days.